

August 2006

Flash Report

The Employees' Retirement System of the County of Milwaukee

MERCER

Investment Consulting

Trustees' Summary

The Total Fund had an aggregate market value of approximately \$1.6 billion at the end of August. The Total Fund gained 2.2% during the month, leading the Reference Index by 10 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 2.4% during the month and small cap equity, as measured by the Russell 2000 Index, gained 3.0%. Growth outperformed value in the large cap space while value slightly outperformed growth in the small cap arena.

The international equity markets gained 2.8% during August, as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, advanced 2.6%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, increased 1.5% during the month. High yield issues led the broad market by a small amount, gaining 1.6%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- The Fund is currently overweight high yield fixed income and underweight core fixed income relative to the policy.
- There are no due diligence meetings scheduled in September. Westfield is scheduled to present in October.
- The small cap search was re-opened and managers are being reviewed for a second time, due to the Board's concern with AQR's contract.
- The Ariel portfolio was liquidated at the beginning of September and the proceeds were invested in a passive small cap value vehicle (BGI Russell 2000 Value iShares) while the small cap value search is conducted.
- It is Mercer IC's recommendation that the September liquidity needs for County be sourced from the Boston Partners large cap equity portfolio.
- Mercer IC will provide a summary brokerage report from the active domestic equity managers.

MANAGER REPORTED PERFORMANCE
As of August 31, 2006

	Assets (\$ millions)	August	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,576.96	2.2	6.2	10.0	13.7	9.8	7.9	9.7	—	
vs. Composite Market Index		2.1	6.3	9.3	12.0	8.5	6.3	8.5	—	
CPI + 4% (1 Month in Arrears)		0.6	5.7	8.1	7.4	6.8	6.9	6.6	—	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	163.97	2.5	8.3	12.7	17.4	8.8	9.5	11.6	12.3	8/1/95
Boston Partners - Net		2.5	8.1	12.4	17.1	8.6	9.3	11.4	12.0	
vs. Russell 1000 Value + 1%		1.8	11.6	15.0	17.1	9.7	7.6	12.4	13.0	
S&P 500 + 1%		2.5	6.5	9.9	12.0	5.7	2.4	9.9	10.7	
CPI + 6.5% (1 Month in Arrears)		0.8	7.7	10.6	9.9	9.3	9.4	9.1	9.2	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index	96.92	3.1	0.3	3.8	7.1	1.8	N/A	N/A	-0.9	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		3.1	0.3	3.7	7.0	1.7	N/A	N/A	-0.9	
vs. Russell 1000 Growth		3.1	0.2	3.7	7.0	1.7	-3.2	5.9	-1.0	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500	118.73	2.4	5.8	8.9	11.0	4.7	1.5	9.0	10.5	4/13/95
Mellon Capital Management - S&P 500 - Net		2.4	5.8	8.9	11.0	4.7	1.5	8.9	10.5	
vs. S&P 500		2.4	5.8	8.9	11.0	4.7	1.4	8.9	10.5	
<u>MID CAP VALUE EQUITY MANAGER</u>										
Hotchkis & Wiley	35.72	3.8	5.6	7.9	N/A	N/A	N/A	N/A	11.2	2/18/05
Hotchkis & Wiley - Net		3.8	5.0	7.0	N/A	N/A	N/A	N/A	10.3	
vs. Russell Mid Cap Value + 1%		2.9	15.3	13.4	21.3	15.0	13.5	14.9	15.1	
CPI + 5.7% (1 Month in Arrears)		0.8	7.2	9.8	9.1	8.5	8.6	8.3	10.0	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	33.48	3.7	0.9	7.1	12.1	6.8	N/A	N/A	4.4	6/12/00
Artisan Partners - Net		3.6	0.4	6.3	11.2	6.0	N/A	N/A	3.6	
vs. Russell Mid Cap Growth		2.3	1.2	6.0	12.9	7.5	4.1	8.6	-2.6	
CPI + 5.7% (1 Month in Arrears)		0.8	7.2	9.8	9.1	8.5	8.6	8.3	8.5	

(1) Total Fund returns represent actual returns through 6/30/2006 and estimated performance thereafter.

MANAGER REPORTED PERFORMANCE
As of August 31, 2006

<u>MID CAP CORE EQUITY</u>	<u>Assets (\$ millions)</u>	<u>August</u>	<u>Year To Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since Inception</u>	<u>Inception Date</u>
EARNEST Partners	34.18	1.6	3.5	6.0	N/A	N/A	N/A	N/A	11.1	2/18/05
EARNEST Partners - Net		1.6	3.1	5.3	N/A	N/A	N/A	N/A	10.4	
vs. Russell Mid Cap Index + 1%		2.6	5.8	10.0	18.0	12.5	10.9	13.3	12.6	
CPI + 5.7% (1 Month in Arrears)		0.8	7.2	9.8	9.1	8.5	8.6	8.3	10.0	
Reinhart & Mahoney	12.23	2.9	11.8	16.6	N/A	N/A	N/A	N/A	14.5	2/18/05
Reinhart & Mahoney - Net		2.9	11.5	16.1	N/A	N/A	N/A	N/A	14.0	
vs. S&P 400		1.1	2.4	6.7	14.4	10.0	10.9	13.8	9.4	
CPI + 5.7% (1 Month in Arrears)		0.8	7.2	9.8	9.1	8.5	8.6	8.3	10.0	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	45.78	3.0	3.8	4.9	10.6	8.3	N/A	N/A	5.2	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		2.9	3.5	6.0	10.6	6.2	2.9	4.5	4.0	
CPI + 5.9% (1 Month in Arrears)		0.8	7.3	10.0	9.3	8.7	8.8	8.5	8.6	
Ariel	40.65	2.7	2.5	-0.8	12.2	10.6	12.8	15.3	15.3	11/30/95
Ariel - Net		2.7	2.3	-1.2	11.8	10.2	12.4	14.8	14.9	
vs. Russell 2500 Value		2.7	9.0	10.1	18.2	14.0	13.9	14.1	14.0	
Russell 2500 + 2%		2.7	6.9	10.1	17.1	13.0	12.5	13.3	13.4	
CPI + 5.9% (1 Month in Arrears)		0.8	7.3	10.0	9.3	8.7	8.8	8.5	8.6	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Capital Guardian	86.13	3.2	10.7	24.6	21.3	12.0	7.0	11.3	10.6	9/1/94
Capital Guardian - Net		3.1	10.4	24.0	20.7	11.5	6.5	10.8	10.1	
vs. EAFE + 1%		2.9	15.4	25.8	25.0	13.2	6.8	8.4	7.9	
CPI + 6.7% (1 Month in Arrears)		0.8	7.8	10.8	10.1	9.5	9.6	9.3	9.4	
Grantham, Mayo	151.77	2.7	15.2	25.5	28.2	19.5	13.3	12.9	12.1	4/13/95
Grantham, Mayo - Net		2.7	14.6	24.6	27.3	18.7	12.5	12.1	11.3	
vs. EAFE + 1%		2.9	15.4	25.8	25.0	13.2	6.8	8.4	8.2	
CPI + 6.7% (1 Month in Arrears)		0.8	7.8	10.8	10.1	9.5	9.6	9.3	9.3	

MANAGER REPORTED PERFORMANCE
As of August 31, 2006

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	August	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	58.78	1.6	9.1	34.1	33.7	21.3	11.4	N/A	11.3	10/31/97
Capital Guardian - Net		1.6	8.7	33.4	32.9	20.6	10.7	N/A	10.7	
vs. MSCI World Ex U.S. Small Cap + 1%		2.9	6.7	18.9	26.9	18.2	10.7	7.1	9.5	
CPI + 6.9% (1 Month in Arrears)		0.9	8.0	11.0	10.3	9.7	9.8	9.5	9.6	
CORE FIXED INCOME MANAGERS										
JPMorganChase	110.69	1.5	2.4	N/A	N/A	N/A	N/A	N/A	4.4	11/1/05
JPMorganChase - Net		1.4	2.3	N/A	N/A	N/A	N/A	N/A	4.2	
vs. LB G/C + 0.5%		1.6	2.1	1.5	4.3	5.5	6.8	7.1	3.6	
LB Aggregate + 0.5%		1.6	2.5	2.2	4.5	5.4	6.8	7.0	4.0	
CPI + 2.6% (1 Month in Arrears)		0.5	5.1	6.7	6.0	5.4	5.5	5.2	4.6	
Mellon Capital Management	214.11	1.5	2.2	1.7	4.0	4.9	6.4	6.6	6.0	1/31/96
Mellon Capital Management - Net		1.5	2.2	1.7	4.0	4.9	6.3	6.6	6.0	
vs. LB Aggregate		1.5	2.2	1.7	4.0	4.9	6.3	6.5	6.0	
Loomis, Sayles	91.19	2.1	3.7	3.8	7.6	8.5	9.1	8.9	9.9	6/30/91
Loomis, Sayles - Net		2.1	3.7	3.7	7.5	8.4	9.0	8.8	9.8	
vs. Fixed Income Reference Index + 0.5% (1)		1.6	2.5	2.2	4.5	5.4	5.4	7.3	8.0	
LB Aggregate + 0.5%		1.6	2.5	2.2	4.5	5.4	5.4	7.0	7.8	
CPI + 2.6% (1 Month in Arrears)		0.5	5.1	6.7	6.0	5.4	5.5	5.2	5.5	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

MANAGER REPORTED PERFORMANCE
As of August 31, 2006

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	August	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	146.34	1.8	2.0	4.6	11.3	10.7	10.1	9.5	12.4	11/30/82
Loomis, Sayles - Net		1.7	1.9	4.5	11.2	10.5	10.0	9.4	12.2	
vs. Merrill Lynch High Yield + 1.5%		1.8	6.8	7.0	10.9	9.9	8.1	8.4	N/A	
CPI + 5.0% (1 Month in Arrears)		0.7	6.7	9.1	8.4	7.8	7.9	7.6	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	72.04	2.9	23.1	28.8	29.1	21.7	20.6	N/A	14.5	1/13/97
ING Clarion Real Estate Securities - Net		2.8	22.8	28.3	28.7	21.3	20.1	N/A	14.1	
vs. Wilshire REIT Index + 1%		3.5	23.2	27.2	29.1	22.4	21.6	17.5	15.6	
MSCI US REIT Index + 1%		3.9	22.0	25.8	27.8	21.8	20.4	16.5	14.6	
CPI + 5.9% (1 Month in Arrears)		0.8	7.3	10.0	9.3	8.7	8.8	8.5	8.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (1)	2.40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	0.96	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

ASSET ALLOCATION
As of August 31, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	24.0 %	20.0 %	17.0 %	25.0 %
Boston Partners	10.4			
Mellon Capital Russell 1000 Growth	6.1			
Mellon Capital S&P 500	7.5			
Total Medium Cap Equity	7.4 %	6.0 %	4.0 %	7.5 %
Artisan Partners	2.2			
Hotchkis & Wiley	2.3			
EARNEST Partners	2.2			
Reinhart & Mahoney	0.8			
Total Small Cap Equity	5.5 %	5.0 %	3.0 %	6.5 %
Westfield	2.9			
Ariel	2.6			
Total International Equity	15.1 %	16.0 %	11.0 %	21.0 %
Capital Guardian	5.5			
Grantham, Mayo	9.6			
Int'l Small Cap Equity	3.7 %	4.0 %	0.0 %	7.0 %
Capital Guardian	3.7			
Venture Capital	1.3 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	57.1 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of August 31, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	26.3 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.0			
NCM	0.0			
Mellon Capital	13.6			
Loomis, Sayles	5.8			
High-Yield Fixed Income	9.3 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	9.3 %			
Cash	2.7 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	38.4 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.6 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

**Average Credit Quality
of current Fixed Income managers**

JPMorgan	AA+
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	AA-
Loomis High Yield:	BB

Mercer Ratings for Current Managers

<i>Large Cap Eq</i>	Mercer Rating	<i>Int'l Small Cap Eq</i>	Mercer Rating
Boston Partners	A	Cap. Guardian	B
Mellon Russell 1000 Growth	A		
Mellon S&P 500	A		
		<i>Core Fixed</i>	
		JP Morgan	A
		Mellon	A
		Loomis, Sayles	B+(T)
<i>Mid & Small Cap Eq</i>			
Artisan	B+		
Hotchkis & Wiley	A		
EARNEST Partners	B+		
Reinhart & Mahoney	B		
Westfield	B+		
Ariel	B		
		<i>High Yield Fixed</i>	
		Loomis, Sayles	B+(T)
<i>Int'l Eq</i>			
Cap. Guardian	B+		
Grantham, Mayo Intl Intrinsic Value	A		
Grantham, Mayo Intl Small Company	A		
		<i>Real Estate</i>	
		ING Clarion	N

**The Employees' Retirement System of the County of Milwaukee
Proposed Investment Manager Due Diligence 2006**

<u>Date</u>	<u>Managers Invited to Present</u>
18-January	Hotchkis & Wiley
08-February	Reinhart & Mahoney and EARNEST Partners
15-February	Boston Partners
15-March	Artisan*
19-April	Ariel* (Terminated)
17-May	
21-June	
19-July	Adams Street Partners and ING Clarion
16-August	Capital Guardian and GMO
20-September	
18-October	Westfield Capital
15-November	Loomis Sayles (both Core and High Yield)
20-December	JP Morgan

* Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

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